

MEMORANDUM FOR: Assistant Chief, DFD-DD/P

THROUGH : Deputy Director (Plans)
Acting Chief, Development Projects Division

SUBJECT : Validity of Unliquidated Obligations

REFERENCE : Your Memorandum dated 21 October 1960, subject:
Audit of DFD-DD/P Activities 1 March 1959 through
29 February 1960

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1. This memorandum will confirm the policy position of this Office in relation to reference, in accordance with the discussion with you and the Comptroller, DFD by [REDACTED] of this Office on 22 November 1960.

2. This Office concurs with the position taken by the Chief, Audit Staff that all obligations reported as unliquidated must be supported by documentary evidence, as required by law (31 U.S.C. 200). No administrative nor operational consideration can ever negate this legal requirement. Therefore, upon liquidation in full of a contractual liability, any residue of funds previously obligated to satisfy such liability should be "deobligated" and be reidentified as unobligated funds of the particular allotment. This should present no problem, for while it is true that after the close of the fiscal year in which the funds were allotted no new obligation of funds may be created, it is equally true that sufficient funds must be made available in subsequent fiscal years to satisfy past claims previously incurred even though the amount of funds recorded as obligations subsequently proves to have been insufficient.

3. Reference states that the practice of continuing to report as unliquidated obligations funds no longer required for the use for which they were originally obligated stems from your desire to provide a "reserve" fund to satisfy other obligations of the same allotment but representing different contracts and which are still unliquidated. Reference also states this action appears justified as experience shows research and development contracts often result in overruns. We recognize the somewhat peculiar obligational problems relating to the research and development contracts in question in that no precedents exist for reliably estimating the overall costs to be incurred. The solution to this problem in our opinion should be found in updating estimates of

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obligations relative to each such contract whenever information as to potential increased or decreased total charges becomes available. Whenever such updating is required after the close of the fiscal year, it may result in over-obligation of an allotment, but nevertheless, this should be recorded and reported as a fact.


4. A further method for alleviating the problem here discussed would be to review past experience resulting from liquidations of such contracts and determine a percentage "cushion" to be added to the amount established as an unliquidated obligation for each such contract to provide additional assurance that in the aggregate sufficient obligations have been recorded for all such contracts unliquidated against the same allotment at any time. Such percentage "cushion" based on sound experience factors would not lessen the validity of your obligations, but rather would increase their validity by providing more realistic estimates and, therefore, be in harmony with the law.

5. In view of the foregoing, your Division should adjust its recorded obligations to insure that all reported unliquidated obligations are supported by documentary evidence and are in accordance with the above stated policy. We shall be glad to discuss this matter further with you should you have any additional questions relative thereto.


Acting Comptroller

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Distribution:

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TAS/:gat (22 November 1960)

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